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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 005955

SIPDIS

SIPDIS

EUR/RUS; EEB/ESC/IEC (GALLAGLY AND WRIGHT)
EUR/CARC, SCA (GALLAGHER AND SUMAR)
DOE FOR HARBERT, HEGBORG, EKIMOFF
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TAGS: [ENRG](#) [ECON](#) [EPET](#) [PREL](#) [PINR](#) [RS](#)
SUBJECT: RUSSIAN ENERGY MINISTER'S END-OF-YEAR REVIEW

REF: MOSCOW 5835

Classified By: Ambassador William J. Burns for reasons 1.4 (b) and (d)

¶1. (C) Summary: Meeting with the Ambassador on December 21, the day after the formal signing of the Tri-Caspian (Russia, Turkmenistan, Kazakhstan) pipeline agreement, Minister of Industry and Energy Viktor Khristenko called it "a good note" on which to end the year. He commented on domestic energy policies, stressing his concerns about improving energy efficiency. He urged U.S. consideration of his previous proposal for an exchange on national energy strategies. Noting that the subsoil legislation amendments were no longer linked to the Strategic Sectors Law, Khristenko said passage of the law in Spring 2008 is a high priority. Despite continuing rumors, he does not expect any major restructuring of his ministry. End Summary.

Pipelines

¶2. (C) Khristenko explained that the long-expected Tri-Caspian agreement had been completed by industry and government working in parallel. The pipeline is expected to be functional by the end of 2010 with Turkmenistan and Kazakhstan supplying 10 billion cubic meters of gas each. Khristenko predicted that the capacity will eventually expand to 30 billion. Saying the "Turkmen are always Turkmen," he found president Berdimuhamedow more open and less difficult. Khristenko forecast that another pipeline system will expand supply from Central Asia by as much as 117-127 billion cubic meters of gas, but cautioned that there are outstanding issues with Uzbekistan.

¶3. (C) In contrast, Khristenko said the Burgas-Alexandroupolis (BAP) was managed differently, with the political process coming first. Referring to the commercial protocol signed in Greece during President Putin's visit earlier in the month, he said that it was 90 percent complete and that documents finalizing company registrations would be ready by January 15, before Putin travels to Bulgaria. According to Khristenko, it will take half a year to complete the feasibility study and another year and a half for construction -- primarily the ports, as the connecting pipeline is relatively short -- making an opening date of 2010 somewhat optimistic. Calling BAP a clear priority for Russia in the Black Sea, he expressed concern about Turkey becoming a hub for both gas and oil, claiming it was "too

ambitious."

¶4. (C) Khristenko was positive about Transneft's role in the Caspian Pipeline Consortium (CPC), saying that the company has made good progress on tariffs and reducing the loan rate. He claimed that progress with BAP would move CPC forward. Regarding the Odessa-Brody-Plotz-Gdansk proposal, however, Khristenko called it a direct competitor for Russia's Druzhba line and said that it could "not be tolerated."

Domestic Policy

¶5. (C) Khristenko strongly defended Russian policies to bring domestic gas prices and those in Belarus and Ukraine into line with world prices, and the privatization of Russian electric power generation, primarily to increase energy efficiency. He bemoaned that few companies in Russia understand the need for making energy efficiency improvements and said he had to continually repeat its importance. He expressed appreciation for DOE offering to host a group of Russian experts in the United States in February to learn more about the issue. Khristenko also pointed to the positive effect of long term (5 years) power contracts that industrial customers in Russia are increasingly obtaining, saying that this would lock in reforms.

¶6. (C) Referring to the poor condition of Russia's housing infrastructure, regional development plans and the costs of heating government buildings, Khristenko said that Russia needs to learn from its partners. In addition to working with U.S. agencies, he described ongoing efforts with the EU,

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Germany, France and Holland. He repeated his proposal made in March for a U.S.-Russian discussion on national energy strategies, saying it would provide opportunities for both countries and send a positive signal to world markets.

¶7. (C) Discussing the Strategic Sectors Law, Khristenko said that its passage was a Spring priority project for the government. Claiming that consultations with the business community were extensive, he said that the law would improve investor confidence. He noted that originally amendments to the Subsoil Law were linked to the Strategic Sectors Law, but "that was no longer the case."

¶8. (C) Despite continuing rumors of restructuring at the Ministry of Industry and Energy (reftel A), Khristenko said that radical change was unlikely. Citing his experience in eight governments, he said that some adjustments to realign responsibilities and clarify lines of authority would be helpful. He claimed that much of the 2004 administrative reform was "wishful thinking" that was not followed by necessary legislative change.

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